

ACCOUNTANCY

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CONTENTS

	PAGE		PAGE		PAGE
PROFESSIONAL NOTES		LEADING ARTICLES		FINANCE	
The Lord Mayor of Liverpool ...	21	Accountancy and Management... 25		The Month in the City ...	35
Women Engaged in the Profession ...	21	War Finance ...	28	Points from Published Accounts ...	36
New Transfer Procedure... ..	21			APPORTIONMENT OF WAR DAMAGE	
The Archbishop's Address ...	22	WOMEN ENGAGED IN ACCOUNTANTS'		CONTRIBUTIONS ...	36
The Kennet Report ...	22	OFFICES ...	30	EMERGENCY ACTS AND ORDERS ...	37
Bank Staffs ...	22			LETTER TO THE EDITOR	
Retail Trade Levy Dropped ...	22	TAXATION		Calculating Hours of Work ...	37
Valuation of Tillages ...	23	ARTICLE: Excess Profits Tax—		MAKING THE BEST OF IT ...	37
The Location of Industry ...	23	Moneys not Required for the		PUBLICATIONS ...	38
Australian Government Contracts	23	Purposes of the Trade or		SOCIETY OF INCORPORATED	
Sales of War-damaged Buildings	23	Business ...	30	ACCOUNTANTS	
Interest-free Loans and E.P.T. ...	23	Relief for Diminution of Earned		Council Meeting ...	38
		Income ...	32	Scottish Branch ...	38
EDITORIAL		E.P.T.—Rents Received ...	32	Personal Notes ...	38
Accounts of Companies—Some		Transactions to Avoid E.P.T. ...	32	Removal ...	38
New Views ...	24	E.P.T.—Moneys not Required... 32		Obituary ...	38
		RECENT TAX CASES ...	32		

PROFESSIONAL NOTES

The Lord Mayor of Liverpool

Alderman R. Duncan French, J.P., Incorporated Accountant, has been elected Lord Mayor of Liverpool for the year 1942-43. It is the first time that an Incorporated Accountant has occupied this high office in Liverpool, and all members of the Society will wish to join in congratulations and good wishes to Alderman French, who has been in practice in Liverpool for nearly forty years and was formerly Honorary Secretary of the Liverpool District Society.

Women Engaged in the Profession

The recruitment under the National Service Act of a large number of young mobile women for the Auxiliary Services and vital war work is the definite policy of H.M. Government for the successful prosecution of the war. The accountancy profession has endeavoured to meet the difficulties entailed in the fulfilment of its obligations in this respect. The question has arisen whether the withdrawal of a trained woman engaged directly upon work of national importance in a practising accountant's office is always in the national interest. Will her transfer lead to her employment on work of higher priority? The criterion is difficult to determine. The previous decision remains that deferment of women in the younger age groups cannot be permitted except within the strictest limits. But the

procedure announced in a letter from Mr. C. J. G. Palmour, the Chairman of the Accountants' Committee, to be found on page 30, is a helpful step in the determination of the criterion. Where urgent work in which a Government Department is interested may be seriously affected by a withdrawal, a practising accountant may submit particulars to the Department directly concerned, which may, if it thinks fit, request the District Man-Power Board to reconsider a case. Where taxation matters are concerned, the particulars may be sent to the Board of Inland Revenue.

New Transfer Procedure

Company registrars, and all who are concerned with registers of securities, will welcome the abolition of Form D and the substitution of the simpler procedure devised to comply with the new Regulation 3A contained in the latest Order in Council (S.R. & O., 1942, No. 2096) amending the Defence (Finance) Regulations. The changes are discussed under the heading "The Month in the City" on page 35. Readers who are interested may obtain the new Instructions to Registrars, issued by H.M. Treasury, and the Instructions and Explanatory Notice (F.E.190), issued by the Bank of England, from the Secretary of the Society of Incorporated Accountants at Incorporated Accountants' Hall.

The Archbishop's Address

The recent address of the Archbishop of Canterbury has attracted wide attention—not less by its challenge than by his sincerity, high-mindedness and great ability. The accountancy profession will recall with appreciation his address at Westminster Abbey to the International Congress on Accounting in 1933. We think the Archbishop over-simplifies the present issues, and, whatever may have been the shortcomings of pre-war society, it can be said that all men of good will, of all parties and of all occupations, would have eagerly stretched out to grasp any *certain* solution of the curse of unemployment: it was *bona fide* doubt, not indifferent neglect, that racked men's minds in the face of so many and such intractable elements. If Dr. Temple does not "expect that men are going to act always from the motive of service," we cannot believe he is unmindful of large measures of disinterested service in all departments of the national life. Here we should like to mention the work of those accountants who have served the profession in many capacities—work which is measured in terms of friendship and honourable service rather than of personal advancement. Indeed, the Archbishop courteously refrains from pillorying any individuals or groups. It is significant that while severely critical of the present control of credit, he refers to the "singular ability and public spirit of banks and bankers." If he has serious misgivings as to the private or business direction of monopolies, he clearly is uneasy that their public control or operation may easily lead to serious abuses. We hope that on some other occasion Dr. Temple will deal with the question of personal responsibility in society and its corollary of individual freedom, upon which public control may quite unconsciously lay a well-intentioned but heavy hand.

The Kennet Report

The long-awaited Kennet Report on Financial Man-power provided few surprises. For the most part, the Committee recommends further measures to economise man-power on lines already adopted; and it is universally recognised that any important release of personnel from these industries, if possible at all, would necessitate drastic and fundamental changes in organisation. Figures contained in the Report show that the numbers employed in banking, insurance and the Stock Exchanges on the outbreak of war totalled about 290,000. This has now been reduced to about 256,000, and it would appear that the Committee's suggestions will secure the further release of not more than about 15,000. On the Stock Exchanges, the numbers employed have been cut by more than half, from 14,000 to just over 6,000 in the case of London and from 4,164 to less than 2,000 on the Provincial Exchanges. In banking and insurance, however, the adjustment to war conditions has meant chiefly the release of a very large proportion of the pre-war male staff and their replacement by women. Thus, in banking the total number employed has been reduced only from 110,000 to about 100,000. In insurance, some 60,000 of the 135,000 men employed before the war have been released,

but the number of women has risen from 37,000 to 73,000, the total number employed thus having fallen only from 172,000 to just under 150,000.

Perhaps the most interesting feature of the recommendations is the comparatively lenient treatment of the insurance industry. Even in industrial assurance, the Committee suggests only an extension of co-operation between employers and employed to secure the release of 15 per cent. of the men deferred in June last. Inter-office concentration is held to be both undesirable and impracticable. Similarly in ordinary insurance, the Committee takes the view that concentration would probably not yield any saving in man-power. The chief recommendation is that personnel engaged wholly or largely in the search for new business should be eliminated, and that transfers from one insurer to another should be prevented. The industry should aim at releasing 10-20 per cent. of the male staff now deferred. One means of achieving this would presumably be some extension of the working day, which appears, as the Committee points out, to be shorter than in similar occupations.

Bank Staffs

With regard to banking, the Committee has adopted the suggestion of the banks themselves that they should operate with 90 per cent. of the pre-war total staff, to be further reduced to 85 per cent. (say, 93,500) from March next. Here, too, it is held that amalgamations would not assist the war effort and would indeed be contrary to public policy. On the other hand, the Committee favours the further closing of branches (of which 1,742, out of 8,469 whole or part-time offices, have already been eliminated). Secondly, the Committee is not satisfied that everything possible has been done completely to adapt methods of work to wartime needs. In particular, it recommends: the reduction of returns and statistics, the less frequent checking of cash, the pooling of staff at large branches to make employees available for work in departments other than their own, centralised book-keeping in large centres of population, and the weekly—instead of daily—exchange of Scottish banknotes. For the first time, it is officially recognised that excessive use of banking services should be discouraged on man-power considerations. Thus, customers of the banks are urged not to put upon the banks tasks which they could perform for themselves; and "it would not be amiss" if a small charge for all special services were made a matter of standard banking practice. Applicable to all the industries in question are the recommendations that a 46-hour week (excluding meal-breaks) should be taken as the standard and that greater use should be made of part-time work, especially of non-mobile women.

Retail Trade Levy Dropped

The Government has decided after all not to adopt the chief recommendation of the Craig Henderson Committee, set up some eighteen months ago to propose—as a matter of urgency—measures for the planned concentration of retail trading. It will be recalled that the central proposal of the Committee was a compulsory levy on retail traders, equivalent

to 1 per cent. on turnover, to enable those withdrawing from business to meet continuing obligations such as rent. Mr. Dalton has now stated that this proposal has met with strong opposition from most sections of the trade, would involve much administration, and could not be put into force without legislation which would be controversial. It is certainly true that the proposed levy has found little favour in any quarter. But it was, of course, only put forward as a possible substitute for some form of Government financial aid, which probably could alone end the financial deadlock that for so long has impeded the mobilisation of this important reservoir of manpower. In place of the levy scheme, the Board of Trade is to make a register, dating from the beginning of the war, "to safeguard the interests of those who have already left business or who may do so in future." Mr. Dalton agreed with the Committee's view that as the war continues and supplies of goods become even shorter the difficulties of retail traders will increase, and urged that traders should make greater use of the Liabilities (War-time Adjustment) Act. The great objection to this machinery, as the Committee emphasised, is that it offers assistance only to those already in serious financial difficulties. After consultation with the Lord Chancellor, Mr. Dalton has, nevertheless, come to the conclusion that there is no need for any extension of the Act such as the Committee proposed. Finally, with the object of ensuring that small retailers secure their fair share of the goods available, each is to receive a percentage—fixed by the Board of Trade—of his supplies in a standard year. Action on these lines is to be taken first in the clothing, pottery and hollowware trades.

Valuation of Tillages

As a result of discussions between the National Farmers' Union and the Board of Inland Revenue, it has been agreed that, subject to the concurrence of the District Commissioners of Taxes, where the normal value of tillages, unexhausted manures and growing crops does not exceed £700, and a detailed valuation is not available, a certificate that the value at the beginning of the year did not differ materially from the value at the end of the year will usually be accepted. Even where the normal value exceeds £700 the Inland Revenue will not press for a valuation in every case, and a similar certificate may be accepted after any enquiry necessary to establish its reasonable accuracy.

The Location of Industry

It has become essential to ensure that buildings, man-power and raw materials are used to the best possible advantage. Under the original Location of Industry (Restriction) Order (S.R. & O., 1941, No. 1100), industrialists were under the obligation, in the case of premises of 3,000 sq. ft. or over, to obtain a licence from the Regional Offices of the Control of Factory and Storage Premises before changing the use to which a factory or warehouse was put, or using premises for purposes of production or storage. By a new Order (S.R. & O., 1942, No.

2072), which revokes the 1941 Order, a licence must now be obtained whatever the size of the premises. Goods may be temporarily stored for 28 days under the existing General Licence, which remains in force. Again, no application for a licence need be made in order to continue to carry on business in premises which were exempt under the earlier Order.

Australian Government Contracts

We are indebted to Mr. E. V. Nixon, C.M.G., F.S.A.A., F.C.A. (Australia), Director of Finance in the Department of Munitions, Commonwealth of Australia, for the standard conditions applicable to cost-plus contracts placed by the Department. A copy is available for inspection at Incorporated Accountants' Hall. It has not been found possible to issue definite instructions as to profit rates, but general principles have been adopted which, we are informed, have given general satisfaction to contractors.

Sales of War-damaged Buildings

Some misapprehension has arisen with regard to the manner in which the rights of the parties to receive payment from the War Damage Commission may be affected by the sale of buildings or land which have suffered war damage. If a property is so seriously damaged as to be a total loss within the meaning of the War Damage Act, a value payment is made to the persons who held proprietary interests in it at the time of the damage. If, on the other hand, the property is not so seriously damaged as to be a total loss the usual payment is a cost of works payment. This is made to the person who actually incurs the cost of repair. This would normally be the purchaser if the sale is effected before the damage is made good. Any person, therefore, who sells property which has suffered war damage at a price based on the assumption that he will receive from the Commission a payment representing the difference between the value of the property before the damage and the sum at which he sells it in its damaged state, is liable to suffer serious loss if in fact it is eventually found that the property is one which can, and should, be repaired, since it is the purchaser who will be entitled to claim from the Commission the cost of the repair.

Interest-free Loans and E.P.T.

A proposal that money lent to the Treasury at call, and free of interest, by trading companies should be regarded for excess profits tax purposes as money employed in the business was not favourably received by the Chancellor of the Exchequer. Sir Kingsley pointed out that it was not a usual practice of the Treasury to accept loans free of interest at call, and he thought that a taxpayer who had lent money to the Treasury would find it difficult to show that the money was employed in the business. The effect of treating such money as capital employed in the business would be to give a return of 8 per cent. or 10 per cent. upon it.

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ACCOUNTS OF COMPANIES— SOME NEW VIEWS

It is a healthy sign that the accounts of companies, the duties of auditors, and other related matters have received considerable attention in the professional and financial Press. It is evident that there is a movement of thought inside and outside the profession. Some of the suggestions made call for careful consideration, although some of them are far-reaching and even attempt to strike at the roots of professional organisation.

The most recent contribution is a trenchant article in *The Economist* of September 26 on "Accountants and Accounts." The main points made are that published accounts of companies are highly unsatisfactory judged by the standards of modern requirements; that accounts supplied to the directors of companies leave much to be desired; that the auditor is in no way concerned with the question of costing, and that his liaison with the internal accountants employed in industry and public companies is very imperfect; that the position of the auditor *vis-à-vis* the shareholders and the directors of companies calls for substantial improvement. It is not complacency which compels us to refer to the continuous improvements effected, which in some cases are attributable to the stimulus of auditors: but it is necessary to state that this matter is not entirely in their hands, and responsibility also, and mainly, rests with the directors of companies. The issues involved are complicated and numerous, and we welcome the suggestion for consultation between those immediately interested, who are representatives of the accountancy profession, industry, the Stock Exchange and the Chambers of Commerce.

It is sixteen years since the publication of the Greene Committee's Report on companies, which eventually led to the Companies Act, 1929. In the ordinary course there would probably have been a further review by a Departmental Committee before now, and there will be a wide field for investigation when that task is opportune. Meantime, the existing law does not limit the extension of information, and, security considerations apart, fuller information in accounts, including profit and loss accounts, would in some measure meet the complaint that company accounts go little beyond the bare minimum enjoined by law. Ten years ago a report was issued by the Council of the Society of Incorporated Accountants recommending alterations in the law, but those recommendations would doubtless call for

considerable extension in the light of further experience and of public opinion. The Society's Research Committee has prepared a substantial amount of matter for improvement in the design and interpretation of accounts. The completion of this useful work has unfortunately been delayed by the war, and it is to be hoped that it may be resumed. Professional opinion has not crystallised as to how much improvement can be effected by evolutionary processes, and how far it will be necessary to raise the minimum by statutory enforcement, and this will be a major question for determination.

Although the published accounts of companies are mainly prepared for the information of shareholders, it cannot be said that their attitude has always been marked by intelligent interest. But the considerable publicity given to these accounts by the financial Press is a valuable public service. Again, more informative accounts are necessary to enable the investment of savings to be directed into those channels where they can be most favourably used for public needs as well as for profit-earning.

But some of the remedies suggested by *The Economist* are likely to find much less acceptance in the profession than the major premises from which the conclusions are reached. We can accept the suggestion of some higher recognition of the services rendered by qualified accountants employed as whole-time officials by industrial undertakings, a matter to which the present President of the Society referred at the last annual meeting; and to which he has directed his attention in an address on Accountancy and Management published in this issue. Mr. Witty has pointed out that both auditing and accounting functions were originally discharged by the auditor. Under modern conditions the industrial accountant has frequently had the advantage of training in professional offices and holds a professional qualification, and his position has increased in importance.

The Economist apparently contemplates an extension of the functions of the auditor with a complete separation of his duties as such from the other professional services rendered by the practising accountant. As an alternative, it is even proposed that the audit of companies should be carried out by officials of the Board of Trade who would be qualified accountants. We should like to acknowledge the helpful attitude of the Companies Department of the Board of Trade towards the profession. But it would be surprising to find that the panacea really rests in the appointment of official auditors or in a substantial measure of official control. The position of the accountancy profession in this country has been built up on the basis of professional independence, and while its past achievements should not be allowed to engender self-satisfaction, the profession will keep pace with the requirements of the times, and it would be entirely opposed to the imposition of official authority in one of its principal functions where the free play of knowledge, experience and character is essential.

The Economist has rendered a useful service in provoking discussion, but most definitely we must say that official control would not effect desirable reform.

—Accountancy and Management

An Address by Mr. RICHARD A. WITTY, President of the Society of Incorporated Accountants, to Members of the Society at Liverpool and Nottingham

By accountancy, I mean the accountancy profession, and by management, I mean, for this purpose, those members of the personnel of industrial management who are concerned with accounts and finance. The relationship between accountancy and management is a very wide subject, and I propose to confine my remarks to three distinct headings, namely, (1) qualified accountants as industrial accountants, (2) the growing powers of management, and (3) industrial accountants and the future of auditing, with special reference to a series of four articles by a group of accountants in industry under the title of "The Future of Auditing."

Qualified Accountants as Industrial Accountants

It is necessary to remind ourselves that qualified accountants are really members of a dual profession, or of a profession which has dual functions, those of the auditor and of the accountant. When this Society was formed—indeed, when all the recognised bodies of accountants were formed—these two sets of functions were normally exercised by one and the same person. The auditor acted also as the accountant. Up to the early years of the present century it was rather the exception to find a head book-keeper who was able to draft a balance sheet and final accounts, except in simple cases. That position has been largely altered as a result of the evolution of business—particularly by the evolution of the large commercial unit, including the multiple trading concerns. That evolution has demanded the employment by business concerns of men trained in practising accountants' offices to act as their accountants. This process has been going on for some years and to-day a fairly large number of our members are engaged as accountants in commerce and not in the practising side of the profession. Their interests are the concern of the Council just as much as the interests of the practising accountant and his staff.

It is necessary to recall that two of the main functions of the Council are (1) the control of the admission of new members, and (2) the preservation of the rights and interests of all members. These two functions react upon each other, particularly in the case of industrial accountants. Every member of the Society who is to-day an industrial accountant received his early training in a practising accountant's office. The only persons eligible for admission to the Society are those engaged in the practice of the profession or engaged in municipal accountancy with special qualifications. It is probably no exaggeration to say that the majority of the industrial accountants of

to-day originally received their appointments largely because of their qualification in a Society which insists upon a knowledge of the practising side of the profession as a condition precedent to admission to the examinations and to membership. Their early training taught them to obtain a complete and focussed view of the whole of a business as distinct from the narrower view which is normally obtained by those engaged in a particular department of a commercial house. The Council are not likely to deviate from the present conditions of admission to membership of the Society, and that is important from the point of view of those who may qualify in the future or of present members who may wish to transfer to the commercial side of accountancy at some future date. That is why there exists the necessity of maintaining practising experience as a basis for membership. Any fundamental alteration in that basis might prejudice the prospects of future members who may desire to enter the ranks of industrial accountants.

Growing Power of Management

A short article was recently published by Mr. Oscar R. Hobson, a London City Editor, on "The Vision—or Nightmare—of Dictatorship by Works Managers." This subject seems to be having a scarifying effect in America, and to a lesser degree in this country. Mr. Hobson deals with the thesis of an American, Mr. James Burnham, who has written a book, "The Managerial Revolution." The writer of that book suggests that the dominant political power was once in the hands of great landowners, the feudal lords; then it passed to the big merchants and manufacturers, the capitalists. But capitalism, he says, is now moribund, because the people who own the instruments of production no longer manage them. Power is now passing to the "social group or class of the managers" who, in the course of a generation or so, will have achieved social dominance, and will be the ruling class in society all over the world. Mr. Hobson not only denounces but dares to disbelieve this theory. I think the theory of Mr. Burnham's book sets out in an exaggerated form a tendency which has been growing for many years past. That is the tendency of the real power and control to pass from the proprietors as represented by shareholders into the hands of those responsible for the management. That tendency is chiefly confined to the comparatively small number of large commercial units, and we must not overlook the very large number of private and public companies which are, in effect, controlled and managed by those who provide the capital. Whether or not the growth of the large unit is likely to be

extended remains to be seen, but it would be a sad day for this country if the individual proprietor and the small business were entirely eliminated. That view tempts one to consider the question of concentration of industry; but I must not stray too far from my subject and concentration, it may be, is a wartime measure only. I venture to think, however, that a largely reduced number of individual businesses may accentuate the difficulties when the day of demobilisation comes and we are faced with the task of transferring several million men and women back from the armed forces to industry.

Future of Auditing

I use this heading because the points we are now going to consider arise in the four articles on the Future of Auditing, by a group of industrial accountants, which first appeared in the columns of *The Accountant*. I am hoping that all my listeners and readers will be familiar with these articles. They are intended to be provocative of thought and discussion on a subject which admits of no ready-made answer.

The first article is headed "The Inadequacy of the Financial Audit Under Modern Conditions." It is stated that the audit is still carried out for the benefit of the shareholders, who require to be assured, in respect of the company in which they have invested capital, that the financial position at a given date was, in fact, as stated by the directors in the balance sheet. Consequently, we find it laid down that "two main purposes of an audit are the prevention and detection of errors and fraud." It is then suggested that interests of a wider nature than those of the shareholder alone will play an important part in the scope and purpose of the audit of the future. It is thought that this will become necessary, firstly, because of the passing of the period of expansion, secondly, because of the separation of ownership from control, which may mean that the advantages reaped from effective management go to persons who can take little or no part in control, and, thirdly, because of the passing of the era of free competition. The importance of these factors will be generally accepted, but I do not think it follows that these factors make the verification of financial condition at a given date insufficient so far as the shareholder is concerned. Admittedly, a limited number of shareholders are interested in actual details of business and management, but the authors' own theories definitely suggest that the shareholder's interest is largely confined to the amount of dividend he is likely to receive on his capital.

The second article is headed "The Growing Interest of Society in Good Management." This article really deals with questions of social security and social responsibility, the relationship between employer and employed, the effects of taxation upon spending power, and the development of trade organisations. Reasons are put forward why it is becoming more and more necessary for the State to take some direct interest in management policy and effectiveness. I do not think there will be general agreement that any such necessity really arises, and the experiences of the war do not tend to prove that State interference is necessarily good for industry in the long run. This

article does not raise any definite points affecting questions of the relationship between accountancy and management, and although the arguments raised are all worthy of consideration and discussion I think we must leave them out for this occasion.

The third article is entitled "The Prevention of Anti-Social Behaviour in Industry." It surveys management conditions and analyses the major difficulties which are normally responsible for inadequate earning power. It then goes on to claim that there is a need for a body of professional men to exercise control over management conditions in the general interest of society. Logically, there follows a discussion on management consultancy and the part the professional accountant might be called upon to undertake in this connection. The authors do not pretend to give a definite answer to the problems they raise, but discuss the work of the small body of men at present engaged on consultancy work in management. Let us then consider whether or not it is desirable that weaknesses of management should be investigated and remedied by professional auditors, or whether it is better that the work should be undertaken by a separate body of practitioners who have obtained their experience from direct contact with industry rather than through experience in the practising side of our profession. In order to give a lead to a discussion on this point I will express my frank personal opinion that management consultancy should remain quite apart from the financial audit and should be undertaken by an entirely separate body of advisers. The audit is a check upon management, but it is not correct to suggest that a financial audit does nothing more than check the financial side of management. An audit throws into relief not only the results of trading but the causes of those results, and it seems undesirable that the auditor should stand in both camps, that of the checker and of the checked. The need for a financial audit will continue in the future as in the past, and I am afraid that if we endeavour to graft upon the financial audit many other duties the only result—or, at least, the general result—may be a reduction in the efficiency of the prime work of the auditor. I read in this article that the auditor does not consider it to be any part of his duty to promote or safeguard the interests of the community in general. That, I suggest, does not fairly represent the position of the auditor. It is quite true that both by law and by commercial contract his first duty is to those by whom he is employed, but the whole work of the auditor tends to promote the interests of the community in general. The authors of this pamphlet surely cannot believe that if there were no audits the financial probity of the financial world would be as high as it is to-day. The work of the auditor in the interests of the community at large may be indirect but it is very definite.

The fourth article is headed: "The Question for the Accounting Profession." This article opens with a general statement that the development of industry has made it necessary for society to build up a special kind of financial police force to prevent anti-social behaviour and misuse of the power which the financial control of industry gives to some socially irresponsible individuals. To what extent can the accounting pro-

profession tackle the job, and how far can it provide the personnel for such a force? That is the principal question which is being put to the profession in this series of articles. The first weak point in the armour of the average professional auditor is said to lie in the fact that he is bound to be influenced by the wishes of those who pay him his fees and who are, in effect, not even shareholders, but directors. The argument is sound in theory but could surely be used in relation to whoever paid the auditor's remuneration, even though, as suggested later, that might be the State. But in my view the argument is not sound in practice, and when the authors state that the auditor cannot be expected to pronounce impartial verdicts from the point of view of the interests of society, it becomes necessary to remind them and ourselves that probably no two persons would be in absolute agreement as to what would best serve the interests of society. In my experience the great majority of auditors are prepared to follow an independent line of action whenever necessary without regard to the fact that they may be imperilling their own fees in the particular case under review, and the suggestion that the auditors should be paid by the State without being in any way government servants seems to me to be impracticable and to be unlikely to achieve any useful purpose. It is maintained that the auditor's experience has been narrow, being built up generally on the basis of figures in which the £ is the be-all and end-all. It is impossible to agree with such a contention. It is just because the experience of the auditor is, comparatively speaking, wide, that industrial concerns turn to the profession for men of exceptional competence instead of drawing them from those who have been trained in industry alone. I cordially approve, however, of the suggestion that it might be a necessary qualification of the auditor of the future that he shall have had some experience inside industry itself. The great practical difficulty is that it delays the age of earning capacity, and it must be remembered, after all, that accountants take up their particular profession chiefly for the earning of a living. Reference is next made to a suggestion in the previous article that the management consultancy might develop into something of the nature of an industrial surgeon, and it is frankly admitted that the problem postulated by the authors would not be solved by the setting up of management consultancy departments in the offices of practising accountants. How then is the problem to be solved? I suggest that the authors of these articles have really solved their own problem, at least in part, because the solution appears to be the appointment of qualified accountants as full-time industrial accountants. Such men are fortified with all the ordinary knowledge possessed by an auditor whilst, in addition, they acquire a detailed knowledge of the strong and weak points of management which should enable them to make any necessary diagnosis and to prescribe the remedies.

As a parting shot the authors express the view that the task of financial supervision is relatively the least important of the three broad divisions of the supervision of industry, the other two being ethics and effectiveness. It is difficult to follow the argument, and it

is fairly obvious that without proper financial supervision the other divisions would be impossible. The concluding sentence of the final article reads: "In view of the need of society for safeguards on the industrial machine, what is to be the answer of the auditing profession?" Speaking purely in my personal capacity, I think the answer is that the auditing profession will continue in the future to try and perfect its methods of verification and will leave to management itself the settlement of purely management problems. The whole trend of these articles rather suggests that the auditing profession should widely extend the scope of its duties. The idea of a management audit is, of course, not new. I remember reading some articles under that title by my old friend, Mr. Robert Ashworth, written several years ago. But I inclined to the view then and I still hold the view that it would be a mistake for the whole auditing profession to pose as management experts. I have, for some years, been the representative of our Society on the British Management Council, and I know something of the widespread ramifications of that great body of personnel whom we describe under the generic term of management. There are well over 100 different management bodies, including several co-ordinating bodies for various sections, and it would be quite impossible for every accountant student to learn all that would be necessary to qualify him as a judge of management efficiency. Management is certainly not confined to accounts and finance.

Human Nature and Post-War Problems

It is not clear at first sight that the question of human nature has a direct bearing on the subjects we are discussing but human nature must be taken into consideration in relation to every post-war problem. There are many people ready to point out that human nature will be the same after the war as before it, that there will be the same desire for domination in international, national, business and personal affairs. Such people are ready to prove that human nature cannot be changed in a decade, but can only undergo a process of refinement through a long period of centuries. The other view, and the one I think we should like to take, is that human nature is to a large extent the result of immediate environment. That a world which is made free to men and women to live their own lives will see very rapidly a change in that quality of heart which we describe as human nature. By endeavouring to effect improvements in organisation, in the varying relationships of human society, and by seeking to find the proper motives for trade and commerce, we may indirectly be helping to improve human nature and consequently the happiness of the post-war world.

Conclusion

I have frankly accepted the challenge of the authors of this pamphlet to discuss some of the points they have raised, because I think it was the best compliment I could pay to them. I need only add my appreciation of the fact that they have forced me to think along new lines and, at the same time, to express the hope that others may be forced in the same direction.

War Finance

"Where the Money Comes From"

By F. BRADSHAW MAKIN, F.C.I.S., F.R.Econ.S.

Earlier in the year, when the Budget was presented, the Chancellor, following last year's practice, again issued two White Papers, one being the usual "Statement of Revenue and Expenditure," and the other the "Analysis of the Sources of War Finance and Estimate of National Income and Expenditure." Both are of particular interest to accountants, especially the one on the sources of war finance, but the shortage of labour, together with the many additional and onerous duties now being undertaken, prevent the majority giving up valuable time for the necessary study of the matter portrayed.

First of all, it is necessary to stress the fact that the figures given in the White Paper on the sources of finance are for a calendar year, and are, therefore, not comparable item by item with the Budget figures. Table A, The Sources of War Finance, shows how the total central Government expenditure of £4,620 million sterling (£4,663 million less appropriations-in-aid, etc.) was financed. The realisation of overseas investments, including assets of the Exchange Equalisation Account, brought in the sum of £798 million, leaving a figure of £3,822 million to be financed from internal or domestic sources. To meet this large figure revenue contributed £1,832 million, leaving a domestic "deficit" of £1,990 million. This domestic deficit can be met only by savings, the surpluses of local authorities, the extra-Budgetary funds, and general internal dis-investment. The first three sources provided £1,497 million, leaving a residual amount of £493 million which represents the internal dis-investment. This final figure is provided out of:

- (a) Sales to public authorities of fixed capital assets privately owned.
- (b) Sinking funds and depreciation funds of firms and institutions.
- (c) The net depletion of stocks and working capital,

less

1. New investment financed privately.
2. Charges on depreciation funds.
3. Replacements of war losses actually carried out.

Two rather interesting tables, Nos. 1 and 1A are shown below which amplify the data given in Table A of the White Paper. Table 1 contains the information in greater detail, and may be said to be illustrative of the manner in which the resources arise. Table 1a shows the form in which the resources finally become merged in the national accounts. It is interesting to note the following percentages: Revenue, 40 per cent., Finance through Government agencies, 5 per cent., Public borrowing at home, 55 per cent.

The National Income

There is frequently some confusion of thought between national income and personal income. As most people realise, there are many payments made to

individuals which constitute personal income in the hands of the recipient, but which do not add anything to the general national income. Pension payments, the interest on the national debt, and so on, are all personal incomes which do not increase the national income. It is therefore necessary to give some attention to Table 2A which shows how the aggregate personal incomes are expended on goods and services and on direct and indirect taxes, and the residual amount which is invested as personal savings.

It is now possible to arrive at a percentage figure of the national resources absorbed by Government expenditure. The White Paper states "this can be calculated on various principles giving widely different results, particularly according to the treatment of payments by the Government otherwise than on goods and services. The following is one method":

	1941 £ million
Government expenditure on goods and services at market prices	4,182
Personal expenditure (Table 2A)	3,863
	8,045

The Government proportion of the total (i.e. 4,182 expressed as a percentage of 8,045) is, therefore, 52 per cent. for 1941, which compares with 44 per cent. for 1940. The paper goes on to say that "the figure of £8,045 million is not a measure of the national income, but is the net national income at market prices plus net dis-investment, less the excess of indirect taxes on consumption over subsidies." If the figure of total Government expenditure were used, instead of the Government expenditure on goods and services, a higher percentage would result but the figure would be largely meaningless.

National Income and Taxation

The question, What proportion of the national income is taken by way of taxation, both direct and indirect? is also answered in the White Paper. The total tax liabilities are given as £2,557 million, made up as under:

	£ million
Direct taxes, War Damage, etc., contributions	1,215
Indirect Taxes less subsidies	1,103
Excess of tax liabilities over payments	239
	£2,557

If this figure of £2,557 million is expressed as a percentage of the national income of £6,338 million as shown in Table 2, the figure obtained is 40 per cent. for 1941, which compares with 33 per cent. for 1940, and 26 per cent. for 1938.

A further table of most interesting figures showing

the effect of taxation on certain income groups is also found in the Paper. The main items may be summarised as under :

Range of Gross Income and Aggregate Gross Income, 1940/41	Total £ mn.	Total Net Incomes with Taxes at		Proportion of Gross Income retained with	
		1938/39 Rates	1941/42 Rates	1938/39 Rates	1941/42 Rates
Under £250	3,344	3,329	3,242	99.6	96.9
£250/500	1,038	1,000	883	96.3	85.1
£500/1,000	477	428	358	89.7	75.1
£1,000/2,000	320	266	203	83.1	63.4
£2,000/10,000	367	259	174	70.6	47.4
Over £10,000	176	88	39	50.0	22.2
Total	5,722	5,370	4,899	93.8	85.6

It will be noticed that roughly 75 per cent. of the total gross income is within the groups up to £500 per annum. The aggregate incomes of the individuals receiving over £2,000 per annum is some £543 million, of which £330 million is already taken in direct taxation. The fortunate, or unfortunate, people who receive over £10,000 a year are only able to retain 22 per cent. of their gross income. It is quite evident that any further increase in taxation must fall on the lower income groups.

There are many persons now stating that, as we can raise vast sums in war-time, we can surely do the same in times of peace for the general betterment and welfare of the people. Without in any way decrying the desire to improve the position of certain sections of the community, it must be pointed out that, apart from the psychological aspect of war-time conditions, we are only raising the bulk of the money by borrowing and by using up our capital as income. As everyone knows, it is impossible to carry on indefinitely by mortgaging the future and dissipating the present.

TABLE 1

THE SOURCES OF CENTRAL GOVERNMENT EXPENDITURE

	£ million
Central Government Expenditure	4,663
Central Government Revenue	1,875
Net Personal Savings, including tax provision	815
Undistributed Profits after tax payment and War Damage Contributions	213
Extra-budgetary funds surpluses	166
Local Authority surpluses	54
Compensation received in respect of War Risks and War Damage claims	249
Domestic Dis-investment	493
Overseas Dis-investment	798
	<u>4,663</u>

TABLE 1A

	£ million
Central Government Expenditure	4,663
Central Government Revenue	1,875
Finance through Government Agencies	
Unemployment Fund	64
National Health Fund	8
Local Loans Fund	9
Other extra budgetary receipts	73
Loan Reconstruction Finance Corporation	87
Sundry Capital transactions	10
Other items	13
	<u>264</u>
Less Sinking Funds	17
Carried forward	247 1,875

Brought forward	247 1,875
Public Borrowing at Home	
Post Office and Trustee Savings Banks	214
National Saving Certificates	213
Defence Bonds	174
Other Public Issues (net)	1,021
Increase in Fiduciary Issue	150
Increase in Treasury Bills	279
Bankers' Deposit receipts	473
Tax Reserve Certificates	17
	<u>2,541</u>
	2,788
	<u>4,663</u>

TABLE 2

ESTIMATES OF NET NATIONAL INCOME AND EXPENDITURE

Expenditure	£ million	Income	£ million
Personal Expenditure on consumption goods at Market Prices	4,550	Rent of Land and Buildings	379
Expenditure at home and abroad on goods and services at Market Prices	4,182	Salaries and pay and allowances of H.M. Forces	1,216
Subsidies	139	Wages and pay, etc., of H.M. Forces	3,021
	<u>8,871</u>	Profits and Interest	1,722
Less—			
Domestic Dis-investment	493		
Overseas Do.	798		
Indirect Taxes, etc., on consumption	826		
Other Indirect Taxes	178		
War Risk Premiums, etc.	238		
	<u>2,533</u>		
	<u>£6,338</u>		<u>£6,338</u>

TABLE 2A

EXPENDITURE OF PERSONAL INCOMES

	£ million
Personal Expenditure on Consumption Goods at Market Prices	4,550
Add Subsidies	139
	<u>4,689</u>
Less Indirect Taxes on Consumption	826
	<u>3,863</u>
Indirect Taxes on Consumption Goods less Subsidies	687
Direct Tax Payments (less Death Duties) and War Damage Premiums, etc.	748
Death Duties and Stamps on Transfer of Property	94
Excess of Direct Tax Liabilities on Personal Incomes over Payments	156
Net Personal Savings	665
	<u>£6,207</u>

£3,863 million represents the personal expenditure on consumption goods at cost of production price, i.e. factor cost.

The figure of £6,207 million represents the total personal income and is made up from the figure of national income in Table No. 2, after the adjustments necessary to cover debt interest, transfer payments, undistributed profits prior to tax, E.P.T., War Damage contributions and similar items.

Women Engaged in Accountants' Offices

The following is the text of a communication issued on behalf of the Accountants' Committee by the Chairman, Mr. C. J. G. Palmour:—

I have been in communication with the Ministry of Labour and National Service regarding deferment of female employees employed by accountants. The position appears to be as follows:—

In August last, the Ministry of Labour and National Service decided that, in view of the increasingly urgent demands for women for the Auxiliary Services and vital war work, it would be necessary to withdraw from their present employment all single women born in the years 1920-1921 and in the first six months of 1922 unless it could be shown they had special qualifications which were not in demand for the Services or war industries or that their withdrawal would result in the closing down of a business of national importance in which they were employed.

District Man-Power Boards were instructed to cancel all existing deferments and to refuse fresh applications for deferment for women in these age groups unless they were satisfied that they fell within one or other of the exceptions specified above.

Representations should not be made direct to the District Man-Power Boards by employers, but, so far as members of the accountancy profession are concerned, if an employer is of the opinion that, as a result of a decision, urgent work, in which a Government department is interested, would be seriously affected, it is open to him to submit particulars to the Government department concerned which may, if it thinks fit, approach the District Man-Power Board with a view to the reconsideration of the case. If the representations refer to an employee engaged upon taxation matters, full particulars, including those of staff, should be forwarded to the Board of Inland Revenue, Secretaries' Office, Imperial Hotel, Llandudno.

TAXATION

Excess Profits Tax

Moneys not Required for the Purposes of the Trade or Business

By R. A. FRICKER, Incorporated Accountant

Among the provisions for computing capital contained in Part II of the Seventh Schedule to the Finance (No. 2) Act, 1939, is paragraph 3, which requires that any investments . . . and any moneys not required for the purposes of the trade or business shall be left out of account.

In some cases the practice may have been adopted of placing the funds not required on specific bank deposit accounts from time to time, and where this is done it may be found that such deposits could reasonably be treated as the moneys not required. It is, however, clear that this method can only be approximate and that in many cases, for example where the practice has been inconsistent or where no such deposits have been made, it could not be used. In such cases even a rough estimate of the moneys not required involves some consideration of the nature and amount of requirements that may be taken into account. The balance sheets will, however, indicate only the position on one date in the year which may be far from representative of the circumstances prevailing during the year. In the same way as a business may have no borrowed money outstanding on two consecutive balance sheet dates and yet may have had large borrowings during the intervening period, so a business may have no surplus cash on such dates but may nevertheless have had considerable surplus funds during some part of that period. The practical application of paragraph 3 in so far as cash balances are concerned is therefore a matter of some difficulty and it is not surprising that the question has been receiving the attention of the Board of Inland Revenue.

The Board's view is understood to be: firstly that all cash balances are to be treated alike, no distinction being drawn between current and deposit accounts; secondly, that where the aggregate of the cash balances never falls during a period below a certain sum, that sum represents an amount of cash which was not used during the period; thirdly, that the sum not used should be adjusted in respect of outstanding taxation liabilities and the amount required to meet contingencies, the balance representing "moneys not required"; and

fourthly, that investments made during the period may be regarded as acquired primarily out of the moneys not required as so ascertained.

It would appear that the first step in the application of this method is to ascertain for each month of an accounting period the date on which the total of all cash accounts taken together is lowest and the amount of such lowest total. This involves an examination of the balances on each day in the year—a formidable, even if not an entirely impracticable task—but in practice it may be found sufficient to utilise the monthly balances, on, say, the last day in each month. The lowest total of each month (or the total of the last day) is then set out in one column, with the relevant dates, and in parallel columns are stated the outstanding liabilities for taxation and the amounts required for contingencies on those dates. Deducting the latter amounts from the cash balances in the first column, adjusted balances are obtained and enumerated in a final column. The lowest amount in the last column, which may or may not be on the same date as the lowest amount in the first column, is the amount of moneys not required. If no investments have been made or realised during the period the amount so ascertained will be deducted in full in the computation of average capital employed during the accounting period. If, however, investments have been purchased, there will be deducted in the average capital computation the average amount appropriate to the excess of the surplus cash, over the cumulative total of the investments made from time to time until the cumulative total of the investments amounts to the sum of the surplus cash, when no further adjustment is required. Proceeds of investments realised will be treated for this purpose as reducing investments made.

Inspectors of Taxes are now frequently raising the question of surplus cash, but it is understood that their instructions are to do so only when an appreciable surplus appears to be involved or when the matter is first raised by the taxpayer. An example follows indicating how the method will presumably be applied in practice in appropriate cases.

Example

Income Tax, 1941-42, paid April 3, 1942	£7,500
Excess Profits Tax for 1941, paid Sept. 2, 1942	£3,000
Preference Dividend (net), paid Jan. 1, 1942	£500
Preference Dividend (net), paid July 1, 1942	£500
Ordinary Dividends (net) :—	
Final for 1941, paid May 10, 1942	£2,500
Interim for 1942, paid Oct. 11, 1942	£1,500
Investment, purchased Aug. 31, 1942	£4,000
Investment, purchased Nov. 30, 1942	£2,000
Investment, purchased Dec. 17, 1942	£2,000

Date	Lowest Aggregate of Cash Balances	Outstanding Taxation Liabilities		Amount Required to meet Contingencies	Adjusted Cash Balance
		E.P.T.	Income Tax		
1942	£	£	£	£	£
Jan 21 ...	21,500	3,000	7,500	5,000	6,000
Feb. 24 ...	23,300	3,000	7,500	5,000	7,800
Mar. 22 ...	25,400	3,000	7,500	5,000	9,900
April 4 ...	18,900	3,000		5,000	10,900
May 12 ...	18,800	3,000		5,000	10,800
June 23 ...	21,900	3,000		5,000	13,900
July 24 ...	23,400	3,000		5,000	15,400
Aug. 31 ...	21,600	3,000		5,000	13,600
Sept. 2 ...	19,100			5,000	14,100
Oct. 13 ...	20,200			5,000	15,200
Nov. 30 ...	20,800			5,000	15,800
Dec. 28 ...	20,300			5,000	15,300

It will be observed that although the lowest aggregate of cash balances is £18,800 on May 12, the lowest adjusted cash balance is £6,000 on January 21. £6,000 is therefore the amount of moneys not required throughout the year.

The deduction to be included in the average capital computation in respect of surplus cash will be £4,500 as follows :—

Jan. 1 to Aug. 31	£6,000 × $\frac{8}{12}$	4,000
Aug. 31 to Nov. 30	£2,000 × $\frac{3}{4}$	500
Nov. 30 to Dec. 17	—	—
		£4,500

The deduction already included in respect of investments acquired is £1,575 as follows :—

August 31	£4,000 × $\frac{1}{4}$	1,333
November 30	£2,000 × $\frac{1}{4}$	167
December 17	£2,000 × $\frac{17}{48}$	75
		1,575
		£6,075

The total of these deductions £6,075 may be confirmed as follows since the cash which was surplus for a whole year £6,000 was ultimately invested, together with an additional £2,000 on December 17 :—

£6,000 × $\frac{11}{12}$	6,000
£2,000 × $\frac{17}{48}$	75
	£6,075

In some cases the application of this method will entail severe practical difficulties as, for instance, in the case of a company with numerous foreign branches. It might, however, prove possible to confine the examination to head office balances if it could be shown that the branch balances retained were merely the minimum sums necessary to finance small local requirements. In other cases it may be possible to abbreviate the work if there is a "natural" date in the year on which cash balances are at their lowest ebb, for example, immediately after payment of the final ordinary dividend. If the balance on that date were so low that it was covered by the requirement for contingencies, etc., the question would be determined; but even if that balance

were not so covered there would still be the possibility of finding a lower balance on another date or of finding that on some other date the "adjusted cash balance" was lower still as shown in the accompanying example. The examination may, in fact, disclose that on one day in the year, taking all accounts together, there was a net bank overdraft, in which case the method would appear to produce a negative result without further enquiry.

The amount required to meet contingencies is clearly an important factor and one that may present considerable difficulty, since it may be largely a matter of opinion. There is no formula for assessing such requirements, but the following principles are suggested :—

1. In general the point of view should be that of the prudent business man.
2. Requirements should not be excluded solely on account of their capital nature or on the ground that when disbursed the charges would be disallowable for tax purposes.
3. The requirements of a chargeable accounting period will not necessarily be the same as those in the standard period. The tendency, in fact, will be towards the need for larger balances in chargeable accounting periods on account of abnormal war-time conditions.
4. It should be recognised that requirements may vary during a period.

It may be considered that there should be included under the heading of contingencies provision for accruing taxation. It is to be presumed, however, that the Revenue would argue that, as the lowest balance is taken, no accruing profit is included in the surplus cash and therefore no disbursements payable out of such profit should be regarded as "requirements."

It may be objected that proper weight is not given to the net liquid asset position, as it is clear that the amount of cash balances may be fortuitous and temporary, depending, for instance, upon such factors as variation of the rate of collection of debtors' accounts, the amount of stock, or suppliers' terms of credit, so that the cash balance might vary without any change in the total net liquid assets. This objection appears to be met, however, by taking as the basis the *lowest* balance of the period, so that an increase of cash arising, say, from a reduction of stock would be ignored, but, on the other hand, a reduction of cash caused by an increase of stock would give a new lowest cash balance. The method, however, does appear to regard a cash balance arising from suppliers' credit as surplus even though the whole amount is due to creditors. For example, assume that creditors amount to £100,000, stock and debtors to £75,000 and cash to £25,000; assume also that this position remains unchanged throughout a period except that the cash balance increases by the accruing profit. Surplus cash for the period is £25,000 less any sum required for contingencies and outstanding taxation, but the entire balance of £25,000 is due to creditors. It is very doubtful whether in such a case it could be successfully maintained that there is any surplus cash. If, however, such a contention were successful, there would remain the possibility that the arrangement with the suppliers involved an element of "borrowed money," adjustment for which would tend to offset that in respect of surplus cash.

It may be concluded that the method which the Revenue are seeking to apply is by no means infallible and that the matter may often remain largely a matter of opinion. In these circumstances it is necessary that each case should be examined individually and dealt with carefully on its own merits.

Taxation Notes

Relief for Diminution of Earned Income

Some confusion appears to exist as to the meaning of "actual earned income" where a Schedule B assessment is concerned, in connection with what Inspectors of Taxes usually term "War Relief." The expression "actual earned income" is stated in sub-section (7) (c) of Section 11, Finance (No. 2) Act, 1939, to mean, in relation to any year, "the amount of earned income which would be assessed and charged to standard rate tax for that year if the amount thereof were in all cases computed by reference to the actual income for that year and not by reference to the income of any other year or period." The confusion arises through the attempt to read "actual income" as meaning "actual statutory income," which, we submit, is incorrect. On the contrary the statutory income means in this case the actual income, and as no special meaning is given to the word "actual" it means exactly what it says. The farmer must therefore be prepared to produce accounts to substantiate the claim, even if he is assessable under Schedule B.

E.P.T. Rents Received

The official attitude appears to be that where premises are held purely for letting, they are investments and the rents are excluded from profits except in the case of companies in the investment class. If, however, premises are used in the business, they remain part of the capital employed, and any rents received from sub-letting part of such premises must be included in the profits. This contention seems to us to be eminently reasonable. Indeed, if such rents were to be excluded, it would, in our view, necessarily follow that the value of the portion of the premises sublet should be excluded from capital employed, in view of the wording of Rule 3 of Part II of the Seventh Schedule to the Finance (No. 2) Act, 1939. As rents received would rarely amount to 8 or 10 per cent. on the capital, their exclusion therefore would not usually benefit the taxpayer except in minimum standard cases. We have seen it stated that the Special Commissioners held that rents should not be included in profits where two lock up shops, forming part of a block of property used in the business,

were sub-let. We should be interested to learn how this affected the capital employed in that case.

The effect on capital employed is an important factor in deciding whether to claim that any particular income should be excluded from the profits computation.

Transactions to Avoid E.P.T.

Experience shows that Section 35, Finance Act, 1941, was a very necessary provision. Time and time again we hear of attempts to rearrange affairs obviously with the sole purpose of avoiding E.P.T. This attitude is to be deplored, as it casts suspicion on genuine transactions and throws an unnecessary burden on the Special Commissioners in the way of appeals. It may be because of this unfortunate trend that the Revenue have challenged certain legitimate transactions, but the machinery should not be clogged by persons trying to evade their just liabilities. The Special Commissioners are quick to sift the genuine transaction from the "wangle," but it is to be hoped that the majority of taxpayers will cease these abortive efforts. The task of accountants is not eased by their attitude.

E.P.T.—Moneys Not Required

When it has been ascertained that certain cash is not required for the purposes of the trade or business and therefore falls to be left out of account in the computation of capital employed in accordance with paragraph 3 of Part II of the Seventh Schedule to the Finance (No. 2) Act, 1939, the relative amount of any interest earned on such cash should be similarly excluded from the adjusted profit. The amount of interest to be so excluded will be the amount corresponding to the average amount of the moneys not required and may be ascertained by applying the rate earned to such average amount. For example, when the moneys not required are £10,000 from January 1 to June 30, £6,000 from June 30 to September 30 and nil from September 30 to December 31, the average amount is £6,500, viz., $\frac{1}{4} \times 10,000 + \frac{3}{4} \times 6,000$. If bank interest were allowed at the rate of 1 per cent. the amount of interest that should be excluded from profit would be £65, viz., 1 per cent. of £6,500.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Sur-tax—Undistributed income—Company acquiring shares in other companies by loan from bank—All dividends payable to bank under loan agreement—Finance Act, 1922, Section 21, Schedule 1, para. 6.

The case of *Thomas Fattorini, Ltd. v. C.I.R.* (House of Lords, April 27, 1942, T.R. 67), noted in our issue of September, 1940, has at length finished its astonishing course. A direction by the assessing Commissioners was discharged by the Special Commissioners in their appellate capacity. The Revenue then appealed to the Referees, who restored the direction, but stated a case for the High Court, where it was again discharged. The Court of Appeal, however, unanimously reversed this decision and once more restored it. And now the House of Lords, with equal unanimity, has finally decided against the Revenue.

The question at issue was whether, within the meaning of Section 21 of the Finance Act, 1922, the company could be held to have failed to distribute a reasonable part of its income when it had, in fact, prior to the

periods in which the income arose, precluded itself from doing so by a contract with its creditor under which the said income had to be applied in discharge of its debt. The creditor was the bank which had financed the acquisition of the investments from which the income arose.

Limitations of space preclude extended comment. The Lord Chancellor over-ruled a dictum of Rowlatt, J., in *Glazed Kid Co., Ltd. v. C.I.R.* to the effect that a company could not distribute a dividend where it was under contract to pay its profits over to someone else. The question in the present case was whether there had been failure to distribute a reasonable part of the income, and this had not been proved by the evidence. Lord Atkin insisted that it was wrong in "a case stated such as this" not to find what would have been a reasonable sum to distribute. His most important dictum would seem to be the following:—

"It seems clear that the discussion must proceed *ab initio* on the footing that the action of the directors

must be judged by considering what their conduct would be if no question of sur-tax influenced their decision. Withholding of distribution "for the purpose of" avoidance of the payment of sur-tax by shareholders would, if found, obviously negative the reasonableness of any part so withheld."

Lord Macmillan, in the course of his judgment, said, in effect, that once it was conceded that the contract was not assailable as unreasonable, as had been done, the Crown's case was gone. Lord Wright, too, held that the Crown had to establish want of reasonableness and had failed. Lord Porter said that the question was not whether the company had taken a reasonable course but whether, having taken that course, what it did was reasonable. It was not the duty of the company "to adopt any and every means in order to scrape up enough money to declare a dividend, however small."

The case is a very important one in regard to the meaning of "reasonable" in Section 21. For the rest, the issue would seem to have depended mainly upon whether it was regarded as an evasion scheme or not. The present writer wonders whether the intention of the scheme had really any significance; and, assuming avoidance to have been the object, what would have been the position if the company had been precluded by its articles from borrowing any money for dividend purposes, and had had no available funds.

Income Tax—Repayment—Annuity under Will—Accruing from day to day—Instalment paid after death—Income Tax Act, 1918, Section 29.

In *Bryan v. Cassin* (K.B.D., May 22, 1942, T.R. 145), the respondent was the executor of Captain Scott who was entitled to an annuity of £300 a year under a will. It accrued from day to day but was payable quarterly. Captain Scott died on January 3, 1941, and the last instalment for the broken period from October, 1940, was paid less tax to his executor. The latter contended that he was entitled to repayment of the tax deducted. The General Commissioners allowed the claim; but their decision was reversed by Macnaghten, J.

It was sought to distinguish the case from *C.I.R. v. Henderson's Executors* (1931, S.C. 681, 16 T.C. 282), upon the ground that the annuity ceased at death, whereas in the latter case the income did not become due until after the testatrix had died; but it was held that it was not a material distinction. In neither case was the accrued income payable, or paid, during the life of the deceased and, therefore, it did not form part of the deceased's income for income-tax purposes.

In the writer's opinion the judgment is open to criticism upon the ground that there is a clear distinction between the dividends in the *Henderson* case which did not in fact accrue from day to day, although deemed to do so, for purposes other than income tax, by the Apportionments Act, 1870, and the annuity, here, which did so.

Schedule D—Trade—Builder—Houses sold for lump sum but subject to feu duty—Basis of assessment.

In *McMillan v. C.I.R.* (Court of Session, March 10, 1942, T.R. 183), a very practical problem came before the Court. Appellant was a builder and dealer in land. He acquired land, either by purchase or taking a feu, erected houses, and, when completed, sold houses and lands to purchasers in consideration of the payment of lump sums and of the creation of feu duties payable by the owners to him as immediate superior. The Revenue had originally contended for a method whereby the price received for the house and the capitalised value of the feu duty were added together and from

the total sum so arrived at there was deducted the total cost of the land and of erecting the house. This method was supposed to be based on *John Emery & Sons v. C.I.R.* (1937, A.C. 91, 20 T.C. 213), but, there, it was a case not of feu duties but of ground annuities; and, in the later English case of *B. G. Utting & Co., Ltd. v. Hughes* (1940, A.C. 463, 23 T.C. 174), it had been held that where builders erected houses on land and then granted 99 years' leases in consideration of a premium and payment of a yearly ground rent, the ground rents so created were for tax purposes to be valued as unsold stock-in-trade at cost or market value, whichever was the less. This was the principle of computation admitted to be applicable; and the General Commissioners in applying it had taken the price realised by the sale of the house and added thereto the value of the feu duty created, so obtaining the total sale value of the house and land. The cost of the price realised by the sale of the house was then obtained by taking the total cost of the house and land and dividing this in the proportion that the price realised bore to the total sale value. They thus obtained the proportion of total cost applicable to what had been sold. This was the *Emery* method, and the Court unanimously approved it; but the President indicated that in any future cases it would be open to submit a better method if one could be found.

Total income—Insurance against death or disablement of director—Whether receipts under policy trade income—Whether shares of policy-moneys and of undistributed balance of profit to be included in total income of shareholders.

In *C.I.R. v. Williams' Executors* (K.B.D., May 22, 1942, T.R. 149) a private company had insured the life of one of the directors and had paid the premiums thereon. In 1938, he died following an accident and the company received £15,000. Mr. Williams, another director, who died in 1939, received as shareholder by way of special distribution the sum of £2,750, following a resolution at the 1938 annual general meeting. By a resolution passed in 1922, all reserve funds or working capital being undistributed profits of the company together with the undistributed balance of revenue account were to be the joint property of the then members of the company *pro rata* to their shareholdings; and at the same annual general meeting in 1938 it was resolved that £5,000 should be taken from the company's reserve and distributed among its two directors and the executors of the deceased director, whose life had been insured. Mr. Williams had received £1,250, being one-quarter of the amount. The Special Commissioners had found against the Revenue as regards the £2,750, but in its favour as to the £1,250. Macnaghten, J., found in its favour upon both issues. As regards the £2,750, which had been found to be a capital receipt, he said that the question was similar to, but not quite the same as, that in *Gray & Co. v. Murphy* (1940, 2 K.B. 175, 23 T.C. 225). He found, however, useful guidance in *Mitchell v. B. W. Noble, Ltd.* (1927, 1 K.B. 719, 11 T.C. 372). There a large sum, paid to secure the resignation of a director whose continuance in office would be detrimental to the company, had been regarded as an income expense, and he, therefore, considered a sum received as compensation for the loss of the valuable services of a director must be regarded as an income receipt.

Upon the second point, where it had been urged that, following the resolution of 1922, the £1,250 received by the deceased was part of a debt due to the members of the company, payable to them if and when they resolved to make distribution of the reserves among themselves, he said that such a resolution was clearly incompetent if it was intended thereby to capitalise the undistributed profits and provide for their distribution as capital. A

company could distribute its profits by way of dividend, but could not distribute its capital.

Income Tax—Will made before September 3, 1939—Codicil after that date—Tax-free annuities under Will—Codicil not confirming Will—Whether tax-free provision varied—Finance Act, 1941, Section 25.

In *Re Waring* (C.A., July 16, 1942, T.R. 155) a judgment by Farwell, J., was unanimously reversed in the Court of Appeal. The issue arose out of the provisions of a testator's will. This was made upon February 11, 1939. By it he gave a number of annuities, two of which were free of income tax. On March 8, 1939, he made a first codicil to his will. On September 3, 1939, came the outbreak of war. On January 27, 1940, he made a second codicil in which no reference was made relevant to the annuities. This codicil did not in terms confirm the will as the first had done. Testator died on August 3, 1940.

In the Finance Act, 1941, by Section 25, special provision was made for tax-free payments whereby the burden of the tax-free obligation was mitigated. The provisions of the Section were to apply *inter alia* where a will had been "made" before September 3, 1939, and the tax-free provision had not been varied on or after that date.

It was unanimously held that a will was "made" when it was signed by the testator, and that neither the date of death nor the date of probate was relevant. In support, reference was made to *Re Elcom* (1894, 1 Ch. 303) whilst Mackinnon, L.J., mentioned that Section 37 of the Wills Act, 1837, provided that that Act should not extend to any will made before January 1, 1838.

Luxmoore, L.J., said he agreed with everything said by the Master of the Rolls; and it is interesting to note that the latter reserved his opinion upon one point. The second codicil did not confirm the will. But it was made after September 3, 1939, and there was the question whether, had it confirmed it, this would have amounted to a variation within Section 25 (1) (c). The importance of this reservation by the majority of the Court will, no doubt, be recognised by those whose duty it is to advise testators in regard to codicils to pre-September 3, 1939, wills.

Tax-free annuity under pre-war separation agreement—Post-war agreement for variation until termination of war—Whether a variation of the tax-free provision. Finance Act, 1941, Section 25.

In *Cobbold v. Davenport and Others* (Ch. Div., July 17, 1942, T.R. 161), the question arose under Section 25 of the Finance Act, 1941. By a separation deed made December 14, 1921, Lady Evelyn Cobbold was to be paid by her then husband such an annual sum as after deduction of income tax and super-tax would yield a "clear yearly income of £4,500, free from all deduction." As from the death of Mr. Cobbold, which occurred in 1929, Lady Evelyn's trustees were to be paid during her life such an amount as, together with the income payable to her under the marriage settlement and any income, if any, payable under Mr. Cobbold's will, would make up the clear yearly income of £4,500 free from all deductions.

Upon November 30, 1939, a deed was made between Lady Evelyn, John Murray Cobbold, her son by the marriage, and the trustees of the will. The son was entitled under his father's will to the income for life of a settled fund of £50,000 and to the whole of the residuary estate. The deed was stated to be supplemental to the deed of separation, and by it Lady Evelyn accepted a deduction of £90 from each of the monthly payments of £375 due on December 1, February 1, March 1 and April 1

next following, and a deduction of £37 10s. from each monthly payment due thereafter until the termination of the war.

The question was whether the deed last-mentioned operated as a variation of the deed of separation so as to exclude altogether the operation of Section 25. Mr. Justice Farwell held that the Section remained operative. He noted that the trustees of the separation deed were not parties to the deed and that it did not in terms affect the separation deed. All it amounted to was a temporary variation whereby Lady Evelyn agreed with her son to accept for a temporary period a smaller sum than that to which she was entitled. At the end of that period the original deed "will remain and has remained unaltered."

Excess Profits Tax—Profession—Ophthalmic Optician—Eyesight-testing—Supply of Spectacles—Finance (No. 2) Act, 1939, Section 12 (3).

In *Webster v. C.I.R.* (K.B.D., July 23, 1942, T.R. 169), the question of what is a profession in connection with the excess profits tax came before the Courts for the first time. Sub-section (3) of Section 12 of Finance (No. 2) Act, 1939, provides that the carrying on of a profession by an individual shall not be deemed to be the carrying on of a trade or business "if the profits of the profession are dependent wholly or mainly on his personal qualifications." The appellant, an ophthalmic optician, a member of the Worshipful Company of Spectacle Makers and of the British Optical Association, was also a member of the Joint Council of Qualified Opticians. These bodies conduct examinations requiring an extensive knowledge of the human eye, and there is a code of ethics with which members must comply. The appellant had stated that in his charges there was a sum of five shillings for sight-testing and, except in national health insurance cases, a sum of half-a-guinea for the prescription for the spectacles. These were prepared by a spectacle maker. He had also stated that if another pair was required from the same prescription no addition was made, and that the only charge was for the spectacles.

The General Commissioners had held that the appellant was carrying on the business of supplying and selling spectacles, to which the eye-testing was ancillary, and had confirmed the assessments to excess profits tax. Macnaghten, J., agreed with their decision.

He said that according to the dictionaries an "optician" was one who makes or sells optical instruments, and that the meaning of the word was not changed by the prefix "ophthalmic." Appellant's counsel had in Court accepted the view that he was carrying on a trade, but urged that he was also carrying on a profession and that the profits thereof ought to have been excluded. The appellant did not profess to be an oculist; but "eye-testing" was one of the "activities" of an oculist, and he thought the Commissioners meant that the eye-testing was ancillary to his real trade or business of supplying and selling spectacles. The case of a doctor supplying medicine had been put forward; but the fact that in a profession there were small receipts of a trade nature did not mean that those receipts should be separated. The case of *Mr. Manse* (1919, 1 K.B. 647, 12 T.C. 41) was different. He carried on two quite separate activities, those of writer and publisher; and this distinguished it from the *Currie* case (1921, 37 T.L.R. 371, 12 T.C. 245). It remains to be seen whether the case will be carried further. But the receipts from eye-testing would seem to be clearly distinguishable from those arising from the sale of spectacles and to be professional in character.

FINANCE**The Month in the City****The New Savings Certificates**

With the announcement of a new series of Savings Certificates, the Chancellor has tacitly admitted the force of the suggestions put forward for some time past that the limit of 500 units on individual holdings of the original certificates was operating as a deterrent on savings. Such suggestions naturally have to be examined very carefully. It has to be remembered that the original Savings Certificates have been by far the most attractive security on offer since the outbreak of war, returning a gross yield of more than 6 per cent. to holders (liable to tax at 10s.) who retain them until maturity. Simply to raise the limit on individual holdings without varying the terms would be equivalent to admitting that an increase in savings can be induced by the offer of higher rates of interest, which is completely contrary to the whole cheap money theory. This rests upon the assumption that the volume of saving does not depend to any important extent on the rate of interest obtainable, and that savings excluded from investment in high yielding Savings Certificates will sooner or later find their way into other Government securities. If at first savers were unwilling to accept a low rate they would have no alternative but to leave their funds idle on bank deposit (which means that the savings would provide no return at all, while the Treasury would obtain the use of them even more cheaply, against Treasury deposit receipts) until such time as the mounting excess of liquid assets induced them to invest at lower rates.

To be consistent with the cheap money policy, therefore, it was evident that a substantially lower return would have to be offered on any Certificates above the 500 limit. In the event, the new issue yields, not more than £1 8s. 2d. tax free, equivalent to £2 16s. 4d. gross with tax at 10s. Their purchase price is 20s., increasing to 23s. at the end of 10 years. The yield offered is somewhat more attractive than the $2\frac{1}{2}$ per cent. payable on Post Office Savings Bank deposits, but less than the return of 3 per cent. on Defence Bonds. It is probable, none the less, that the new Certificates will meet with greater success than the relatively unpopular Defence Bonds, since it is held to be the form of Savings Certificates—especially the fact that holdings do not have to be shown for tax purposes—rather than their high yield, which appeals to large classes of holders. Sir Kingsley Wood disclosed that of 15,500,000 holders of Savings Certificates, not more than 750,000—or just under 5 per cent.—possess their full quota. Of the latter about 40 per cent. took up their full holding at one time, while during the war this proportion has risen to 60 per cent. If the 300,000 large savers who were able to subscribe for their full quota in one operation should take up their full amount of the new series, this alone would yield some £75,000,000. It seems possible that in the first instance a fair proportion of such subscriptions would represent a diversion of funds from the Savings Banks, rather than the clearing banks.

Celanese Scheme Opposed

Like so many previous schemes of its kind, the British Celanese scheme for funding the arrears of dividend on the Second Preference shares has been criticised as unduly favourable to the ordinary shareholders, and a committee of preference shareholders has in fact been formed to oppose it. Under certain conditions, there is no doubt that a funding scheme can operate to the

advantage of both classes of capital. Instead of waiting for the gradual repayment of their arrears over a more or less prolonged period, the preference shareholders receive an immediately marketable security, while the ordinary shareholders are brought within sight of dividends. Whether a particular scheme is desirable and equitable depends upon several tests, of which the most important is the earning power of the concern. If this has recovered sufficiently to permit the arrears to be paid off over a reasonably short period, there is no case for a scheme at all. In the present instance, it is impossible to judge whether or not this is so, for while 1941-2 profits before tax are estimated at £1,270,000, the amount of E.P.T. liability has not been made known, although the standard has been fixed (with the exception of an outstanding claim). Assuming a scheme to be necessary, everything depends on what the preference shareholders are offered in satisfaction of their arrears and as a *quid pro quo* for opening the way to ordinary dividends. Originally, this consisted of £1,700,000 of 4 per cent. Funding Certificates, or 8s. per share, roughly the nominal amount of arrears after tax at 10s. The rate was later raised to 5 per cent. The general opinion, however, is that the market is more likely to require a yield of about 6 per cent., since the certificates rank behind the dividend on the First Preference shares. In this case, preference shareholders would still be sacrificing some portion of the nominal value of their arrears. Particularly is this the case since the scheme contains no hard and fast provisions for the redemption of the "Funding" Certificates within a reasonable period; and this applies to the revised scheme as well as to the original offer.

Simplified Share Transfers

With the express object of saving paper and time, the procedure for share transfers between United Kingdom residents has been greatly simplified. Instead of attempting to trace all non-resident interests, however remote, it is now sought to establish first of all whether either party is in fact a non-resident or acting for a non-resident owner. If a plain declaration can be given that neither of them is, the formalities are at an end so far as concerns the transfer of registered securities, which constitute the vast majority of transactions. Form D is, therefore, abolished and replaced by a simple declaration. The size of other forms has been reduced and Form B—relating to bearer securities—is no longer required in duplicate. Whenever securities are to pass into or out of non-resident control, official permission is required, but there is a large increase in the number of appointed agents from whom such permission can be obtained. In particular, solicitors are now included in the list of persons qualified to make some of the declarations required. Explaining why it is necessary to control the purchase of a sterling security by a non-resident, which on the face of it should represent an influx of capital into this country, it is pointed out that what appears as a transaction in securities may not in fact be a genuine transfer. For example, someone in this country may formally hand his securities to a non-resident against quite nominal consideration while actually retaining control. The only result in this case is that an external claim on our overseas assets is created for the interest (since this can be freely sent abroad) and later on for the capital.

Points from Published Accounts

Rolls-Royce

The profit of Rolls-Royce is described in the directors' report as having been determined after provision for "liberal depreciation" and contingencies. This open avowal of conservatism does much to explain the anomaly between the amount provided for income tax and the strictly net sum left available for distribution. Out of a surplus of £514,472, a transfer of £285,000 is made to income tax reserve. Even this, it will be observed, represents a good deal more than 10s. in the £; but as requirements for the 20 per cent. dividend are shown gross at £226,927, it should be increased by another £113,463 to arrive at the full total of the income tax provision. And if we scale down the residue of profit accordingly we find that £398,463 has gone, all told, in income tax, whereas the bare net profit is only £116,009. The assumption raised by this comparison, that the directors have thought it desirable to make charges against revenue greater than those allowed by the authorities for tax purposes, finds some confirmation in the balance-sheet. The contingencies reserve has risen on the year from £229,409 to £298,724; incidentally, the company follows an excellent practice in stating this separately. And the depreciation shown to have been deducted from property and plant for 1941 is £218,391, which appears a very substantial appropriation in relation both to the previous year's allocation of £146,231 and the small book value left on these assets. Although additions of £71,608 were made during the year, these fixed items now account for only £650,486 of a balance-sheet total of £8,150,280.

Telephone Rentals

The form of the Telephone Rentals accounts has much to commend it. The profit and loss and appropriation accounts, particulars of the various reserve accounts, and the balance-sheet are all set out in one double-page spread, and the convenience of the shareholder is further studied by the inclusion of comparative figures for the previous year. The content is, however, less satisfactory. The company is a holding concern, and in 1941-42 dividends from subsidiaries made up £133,820 of the total revenue of £143,266. And interests in these enterprises are brought in at £1,079,825, representing by far the greater part of the balance-sheet total of £1,297,453. In these circumstances it is a great pity that a consolidated balance sheet and a combined profit statement are not presented. As tailpiece, it is encouraging to note that more and more attention is being paid to the layout of accounts. A recent example is provided by Whitworth and Mitchell, which has rearranged its statement of assets and liabilities so that the various items now appear in a logical order and are totalled into rational groups. Two points of special interest are that goodwill of £364,306 is shown last among the assets, not being included in the fixed assets group, while dividends recommended for payment are also shown in isolation, being neither included in the profit and loss balance nor grouped with current liabilities.

Apportionment of War Damage Contributions

The Second Schedule of the War Damage (Amendment) Act, 1942, makes important alterations in the apportionment of contributions as between mortgagors and mortgagees, and as between landlords and tenants. For the purpose of determining a mortgagee's liability in relation to a second or subsequent mortgage, the "price of acquisition," or "value" as the case may be, must be reduced by the total of all the amounts secured by prior mortgages. Section 25 (3) of the 1941 Act will now apply, as it was originally intended to apply, whenever the collateral security is security for the same advance and even though it is not included in the same instrument of mortgage. The preservation of a mortgagee's liability under section 25 (5) of the principal Act is now extended to cases: (a) Where the property is let in apartments or tenements, each of which is separately assessed to Schedule A, if each such assessment does not exceed £35; and (b) where the property is a single farm parts of which are separately assessed to Schedule A, if the aggregate of the assessments does not exceed £500. Where mortgaged property is partly requisitioned, the notional treatment under section 44 (1) (c) of the 1941 Act of the requisitioned and unrequisitioned parts as separate contribution properties will not operate so as to cause the mortgagor loss of his relief against the mortgagee. A mortgage will be regarded as a *substituted* one, so long as it was created for the purpose of paying off the earlier

mortgage, and the time of the payment off of the earlier mortgage is immaterial.

Landlords and Tenants

Provision is now made with regard to the indemnity to which a mesne landlord is entitled under para. 2 of the Fourth Schedule of the 1941 Act, in cases where the property which is let by the mesne landlord in a single letting is held by the mesne landlord under different titles from different persons. The indemnity of a sub-lessee of part of a contributory property under para. 4 of the Fourth Schedule of the 1941 Act in cases where he has subdivided his "part" is dealt with in para. 8. Reversionary lessees are now made liable for a share of the contribution. For the purpose of comparing "rent" with "value" and thus determining the "appropriate proportion," provision is now made for the ascertainment of the "rent," in cases where the rent has been voluntarily reduced or remitted or been suspended under the Landlord and Tenant (War Damage) Acts, in cases where the rent is inclusive of rates or landlord's charges for services or goods, and also in cases where either no rent is reserved or the rent is a non-money rent. Finally, payment of an indemnity can be enforced only when and to the extent to which the liability giving rise to the indemnity has been discharged.

Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the wartime enactments and Orders which most concern the accountant. The thirty-fourth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ORDERS

CHECK TRADING

No. 1235. *Check Trading (Control) Order, 1942.*

No. 1236. *Check Trading Directions, 1942.*

The Board of Trade may issue directions to control check trading. Check traders may be required to keep books and records, and to produce information. No poundage may be charged.

LOCATION OF INDUSTRY

No. 2072. *Location of Industry (Restriction) Order, 1942.*

No premises in Great Britain may be used as a factory or warehouse unless they were so used by the same person in the same trade or business on July 26, 1941, or unless a licence is obtained from the Board of Trade.

(See ACCOUNTANCY, January, 1942, page 57, and this issue page 23.)

MANUFACTURE AND SUPPLY

No. 2047. *Headwear Directions, 1942.*

The supply of headwear by registered persons during the period October 8, 1942, to January 31, 1943, is restricted to 10 per cent. by value of the headwear supplied during the year ended December 31, 1941. An unregistered manufacturer may supply headwear manufactured by him to the value of £85 from October 8 to November 30, 1942, and £50 during each of the succeeding two months; or, if he gives notice before November 15, the restriction may be applied to all the headwear he supplies, whether manufactured by him or not, and the £85 and £50 may then be increased to £140 and £80 respectively.

(See ACCOUNTANCY, September, 1942, page 217.)

RETAIL BUSINESSES

Nos. 1619, 1828. *Location of Retail Businesses Orders, 1942, Nos. 1 and 2.*

The Order of 1941 is revoked and superseded. Strict control is imposed over the opening of new businesses or the extension of existing businesses to new categories of goods. Explanatory notes are appended to No. 1619.

(See ACCOUNTANCY, February, 1942, page 89.)

TRADING WITH THE ENEMY

Nos. 1713, 1840, 2013. *Trading with the Enemy (Specified Persons) (Amendment) Orders, 1942, Nos. 14-16.*

No. 1713 presents a consolidated list of traders in neutral countries with whom dealings are prohibited. The list is further amended by Nos. 1840 and 2013.

(See ACCOUNTANCY, August, 1942, page 199.)

WAR DAMAGE

No. 1869. *War Damage (Business Scheme) (No. 10) Order, 1942.*

The premium for business scheme policies for the six months ending March 31, 1943, is to be at the rate of $\frac{1}{4}$ per cent., with a minimum of 10s.

(See ACCOUNTANCY, August, 1942, page 199.)

LETTER TO THE EDITOR

Calculating Hours of Work

DEAR SIR,—An Inspector of the Board of Trade has recently examined the wages book of one of my clients and was "intrigued" by the method I had instituted for calculating the number of hours worked.

The system is quite simple, the only difference from usual practice being to use the 24-hour clock for recording hours after midday. The following example, for two days, with a midday break, will make it clear:—

			New Method	
	On	Off	On	Off
Monday ...	8.0	1.0 = 5	8.00	13.00
	2.0	6.0 = 4	14.00	18.00
Tuesday ...	8.15	12.45 = 4 $\frac{1}{2}$	8.15	12.45
	1.45	5.30 = 3 $\frac{1}{2}$	13.45	17.30
			17 $\frac{1}{2}$	44.00
				61.15 = 17 $\frac{1}{4}$ hours

By adding up the "On" hours and deducting it from the "Off" hours, the number of hours worked is obtained. This either saves calculation of individual periods of work or provides a useful check on the total for the week. Of course it would not work exactly like this for night shifts.

Yours faithfully,

Worcester.

October, 1942.

C. N. ROWE.

MAKING THE BEST OF IT!

Readers will be interested in the following extracts from a letter received from a member of the Society who is now interned in French North Africa after serving in the Royal Navy:—

"The sun is extremely hot. At the peak of the summer during August the shade temperature reached approximately 120 degrees. We are becoming beautifully sun-tanned; Greta Garbo might well be envious.

"There is a general shortage of everything, except flies. Food is scarce; we live on macaroni, spaghetti, lentils, soups and liquid foods. Fortunately fruit is fairly plentiful, although the quality is not as high as the quantity. We have pears, peaches, fresh figs, tomatoes, dates, melons, etc.

"My English palate took some time to become accustomed to Arab soldier rations, but with English traditional adaptability it was finally accomplished. Our lives are brightened a little by a daily issue of 'vin-rouge'; brightened still more by the welcome attentions of the Red Cross.

"The Red Cross are benefactors indeed. One has to experience the results of their efforts fully to appreciate their tremendous value to those people in dire need. With their help we relish such delicacies as tea, sugar, milk, cheese, canned beef, luncheon meat, butter, raisins, prunes, etc.

"Some footballs have just arrived from England and games of soccer and rugby are being organised. Running meetings are frequently held, boxing, volley-ball and tennis and P.T. are held every day.

"The Camp runs a 'University,' too, where instruction is given in anything from Accountancy to Agricultural Botany. I am studying French, English, Pelmanism and the rudiments of Psychology. I am instructing a class in bookkeeping. I spend quite a lot of time helping with the Camp Accounts and, in this way, am keeping mentally alert for re-introduction into civilian life. A course of study for intermediate Bachelor of Commerce is *en route* from home and I hope to get down to some really useful study when it arrives."

Publications

The Death Duties. By Robert Dymond. Ninth Edition. (Solicitors' Law Stationery Society, Ltd. London. Price 50s. net).

We welcome this new edition of Mr. Dymond's standard work on the difficult subject of Death Duties, a work which has become well nigh essential in the offices of those professional accountants whose duties extend into the field of executorship and trust practice. This edition has been thoroughly revised and takes in the legislative changes and judicial decisions that have occurred during the five years since the previous edition was issued in 1937. As the author notes in his preface, "since the last edition there have been seven Finance Acts, all of which, except that for this year, affect the death duties"; and as is well known there has been an exceptional number of judicial decisions bearing on this subject.

That part of the text dealing with the "Valuation of Shares in Companies," a subject with which accountants have been intimately concerned, has been entirely rewritten, as have also those parts dealing with "Transfers to Companies" and "Release of Limited Interest." The consolidated supplement to the last edition has been incorporated in the book and the new scale of rates of estate duty is fully set out. The text relating to "Killed in War" cases has also been remodelled.

We can but agree with the author when he remarks at the close of his preface that the question of consolidating the law relating to death duties should be urged upon the authorities. The estate duty in its present form was introduced in 1894, since when there have been thirty-five Finance Acts with provisions relating to death duties.

To have brought this complex subject within the

compass of 500 pages, including a satisfactory index, is no small achievement.

Excess Profits Tax Simplified. By H. A. R. J. Wilson, F.C.A., F.S.A.A. 3rd Edition. (H. Foulks Lynch & Co., Ltd., London. Price 7s. 6d. net.)

Mr. Wilson is quite justified in claiming that his book will appeal to practising accountants generally, but it is nevertheless the student to whom, as he himself says, it is particularly dedicated. It is a student's book, not only because of the simplicity and clarity of the language used and the careful check-references to the various sections of the Acts, but also and especially in the numerous worked examples.

This is the third edition of Mr. Wilson's book—a fact which in itself speaks well for it. The author has been able to incorporate a great deal of experience of the working of the tax, and he makes reference to numerous interesting concessions which the Revenue adopt in practice. He is particularly good in his sections on amalgamations and successions, and the examples he gives of capital computations and the careful rules for guiding the student through that most difficult stage will be found of great help by more experienced practitioners. The chapter on interconnected companies is perhaps the least successful. It is over-advanced for the student, who is unlikely to require extensive knowledge of this subject for examination purposes, but it is not extensive or elaborate enough to guide the expert.

The author is to be congratulated on having produced this new edition; it is the most useful student's book available. In these days of expensive and bulky volumes it is good to see that it is well within the student's pocket, not only in price but in size.

Society of Incorporated Accountants

COUNCIL MEETING

TUESDAY, OCTOBER 27, 1942

Mr. Richard A. Witty (President) in the chair.

RESIGNATIONS

The resignations of the following members were accepted as from the dates indicated:—

December 31, 1941: Arthur Edward Bradfield (Fellow), London; Daniel McKernan (Associate), Cork; Harold Redvers Michael (Fellow), London; Frederick Sparey (Associate), Bedford; John Charles Styles (Associate), Barrow-in-Furness.

December 31, 1942: James Stewart Seggie (Fellow), Edinburgh; Herbert James Thompson (Fellow), Newcastle-on-Tyne.

DEATHS

The Secretary reported the death of each of the following members: Cecil Maurice Bettison (Associate), Cape Town (killed in action); Nigel Carman (Associate), London (on active service); John Gordon Carter (Fellow), Johannesburg; Kenneth Jack Feast (Associate), London; Thomas Gordon (Associate), Liverpool; Henry Douglas Jamieson (Fellow), Durban; William Hugh Jardine (Fellow), Coatbridge; Robert Thomson McCutcheon (Fellow), Glasgow; William Nicklin (Fellow), Manchester; Andrew Nicol Campbell Smith (Fellow), Glasgow; Frederick Sidney Smith (Associate), Norwich; George Harry Tyler (Associate), Birmingham; Victor Stanley Wright (Fellow), London; Richard Arthur Wyatt-Jones (Associate), Montreal.

SCOTTISH BRANCH

A meeting of the Council of the Scottish Branch was held in Glasgow on October 2. In the absence, through indisposition,

of the President, Mr. R. T. Dunlop, the chair was occupied by Mr. D. R. Matheson, LL.B.

Reports were made by the Secretary with regard to membership and other matters affecting the profession in Scotland. The Chairman reported on the work of the Scottish Advisory Committee, and a number of other subjects were dealt with.

PERSONAL NOTES

Mr. Herbert Holmes, Incorporated Accountant, 45, Roper-gate, Pontefract, and Mr. Frank Cecil Beaumont, Incorporated Accountant, formerly a partner in the firm of Messrs. Davey, Beaumont & Padget, Wakefield, announce that they have entered into partnership. They will carry on the practice hitherto carried on by Mr. Herbert Holmes at 45, Roper-gate, Pontefract. The firm name will be Holmes & Beaumont.

Messrs. Fredk. & C. S. Holliday, Incorporated Accountants, advise that Mr. C. S. Holliday, who has been connected with the firm for the past 40 years, has retired, by reason of ill-health. The practice will continue to be carried on by the remaining partners, Mr. H. Bray, Mr. F. C. Holliday, Mr. J. Jackson and Mr. W. B. Holliday under the same style as heretofore.

REMOVAL

Mr. F. W. Berringer, Incorporated Accountant, has removed his offices to 8, Widmore Road, by Market Square, Bromley, Kent.

OBITUARY

WILLIAM HUGH JARDINE

We regret to report the death of Mr. William H. Jardine, F.S.A.A., Coatbridge, who became a member of the Society in 1908. Mr. Jardine, who was in his 85th year, was the eldest son of the late Rev. Thomas Jardine, a well-known Ayrshire parish minister in his day.